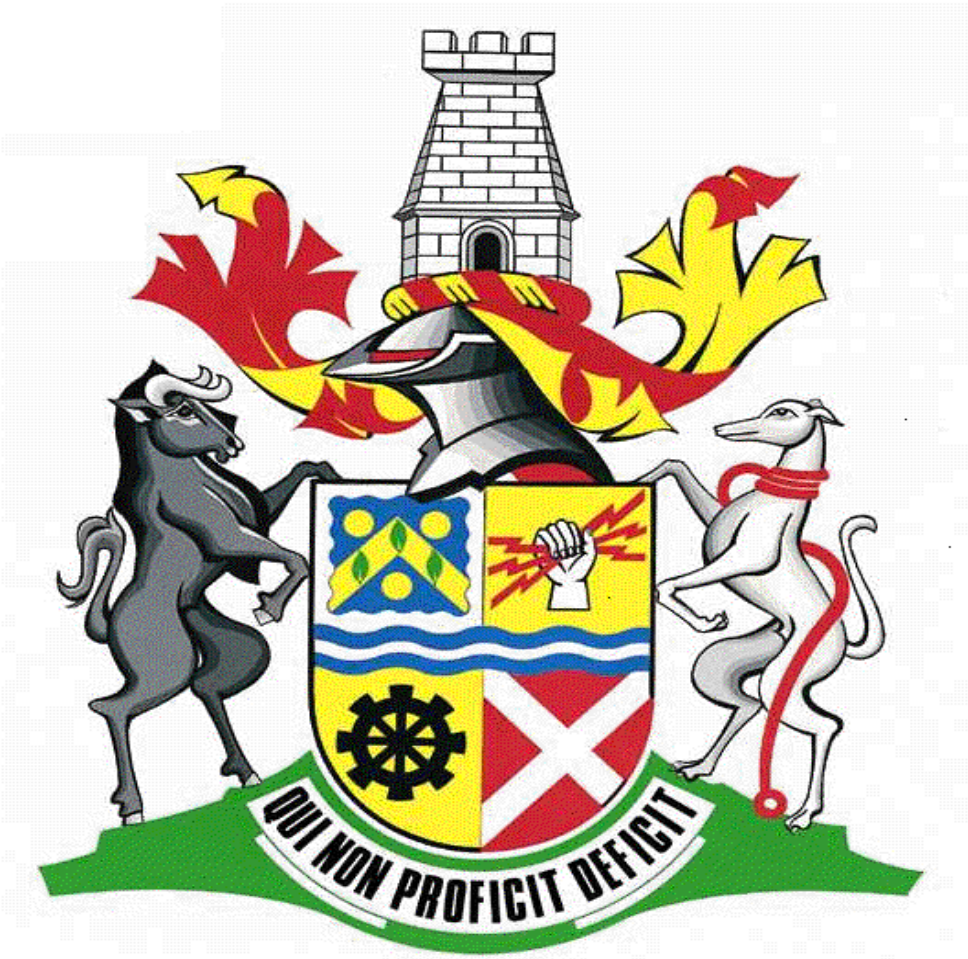
NEWCASTLE MUNICIPALITY



PROVISION FOR DOUBTFUL DEBTS AND DEBTORS WRITE OFF POLICY

Contents

1. Definitions: .....**Error! Bookmark not defined.**

2. Purpose and Scope of the Policy..... 3

3. Objective of the Policy…….3

4. Transparency, accountability and fair administrative action……..3

5. Policy principles……...4

6. Impairment of debtors……..5

7. Procedures for writing off of debt……6

8. Factors which the Council may take into account in writing off debt……7

9. General provisions relating to the writing off of debt……8

1. Definitions:

In this policy, unless the context indicates otherwise:

"the municipality" means the Newcastle Municipality;

"debt" means an obligation in money and/or services due and owing to the municipality;

"debtor" means a person, natural or juristic, who owes a debt to the municipality and who may be compelled to pay in terms of a claim or demand by the municipality;

"irrecoverable debt" means the debt which in terms of this policy meets the criteria for writing off;

2. Purpose and Scope of the Policy

The purpose of this policy is to provide a framework for regulating the write-off and provision of irrecoverable debts and the consequent further enhancement of the municipality's debt management strategy.

3. Objective of the Policy

3.1 To ensure that the debtors disclosed in the annual financial statements are stated at amounts that are deemed to be collectable.

3.2 To ensure that the uncollectable debt is written off within the guidelines of the existing policies and applicable legislation.

4. Transparency, accountability and fair administrative action

The municipality commits itself and its officers to act fairly and justly in an open and transparent manner in implementing this policy.

4.1 A proposal to write-off a debt, either as part of a group of debts, or individually, will be considered by the Council on its merits pursuant to the procedure and with due regard to the information which must be provided to it in terms of this policy.

4.2 The Constitution entitles everyone to administrative action which is lawful, reasonable and procedurally fair and to be given reasons for any such action which affects them.

4.3 The Promotion of Administrative Justice Act, No 3 of 2000 is the legislation required by the Constitution to give effect to the right to just administrative action and in order to promote an efficient administration and good governance and to create a culture of accountability, openness and transparency in public administration or in the exercise of a public power or the performance of a public function.

4.4 This policy incorporates the above principles by providing parameters and procedures to guide the municipality and its officers in implementing it, and thereby exercising a public power through a series of administrative actions. In so doing, the policy seeks to provide certainty on the part of those affected by it with regard to how the municipality will act in the circumstances covered by the policy and uniformity of action on the part of its officers.

5. Policy principles

The following are the principles for the Debtors Write-Off of Irrecoverable Debt Policy –

5.1 The policy comply with the Local Government: Municipal Finance Management Act (No 56 of 2003), the Local Government: Municipal System Act (No 32 of 2000) and other related legislation.

5.2 Before any debt is written-off it must be proved that the debt has become irrecoverable. To ensure that recommendations for the writing-off of debt are consistent and accurate; irrecoverable debt will be defined as –

i. Where the tracing of the debtors is unsuccessful;
ii. All reasonable steps, in terms of the Credit Control Policy, were taken by the administration to recover the debt; and
iii. All old debts of the approved indigents accounts.

5.3 Bad debt to be written-off must be considered in terms of cost benefit. Therefore, when it becomes too costly to recover and the chances of collecting the debt are very slim, a write-off should be considered.

5.4 Time value of money is very important because the older the debt becomes, the more difficult and costly it becomes to collect. It is therefore imperative that a proper system of credit control is implemented and maintained to avoid debt reaching the stage of becoming too expensive to recover.

6. Impairment of debtors

Consumer debtors, long term receivables and other debtors are stated at cost less a provision for doubtful debts. The provision is made on an annual basis, or based on the expected cash flows.

In accordance with the relevant legislation and accounting framework an objective assessment of the accounts receivable is made at the financial year end to determine a possible impairment of the asset.

Individual classes of receivables are assessed for impairment using the following methodologies:

6.1 Consumer Debtors

Consumer debtors are evaluated at each reporting date and impaired as follows:

Category of debtor	**Percentage of debt regarded as collectable**	**Percentage of debt provided for as irrecoverable(i.e. impairment percentage)**
Credit balances	Zero	Zero
Inactive accounts	Zero	100%
Approved indigents	Zero	100%
Formal arrangement of debt	50%	50%
Debtors ageing 365 days +	Zero	100%
Debtors ageing between 181 days – 365 days	70%	30%
Debtors ageing between 150 days - 180days	70%	30%
Debtors ageing between 120 days and 150 days	75%	25%
Debtors ageing between 90 days and 120 days	80%	20%
Debtors ageing between 60 days and 90 days	85%	15%
Debtors ageing between 30 days and 60 days	90%	10%
Debtors ageing at 30 days	95%	5%

5.2 Sundry deposits

Sundry deposits are assessed for impairment to ensure that no objective evidence exists that these deposits are irrecoverable.

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7. Procedures for writing off of debt

7.1 General

a) A debt may only be written off by resolution of the Council.
b) Unless specific provision is made elsewhere in this policy, the Council may only write off a debt after consideration of a report and recommendations from the Accounting Officer, containing at least the information prescribed in this policy certifying that the processes provided for in the municipality's Customer Care, Credit Control and Debt Collection Policy have been adhered to and that in his / her opinion there is no reasonable prospect of recovery of the debt and / or that further efforts to do so would be uneconomical.
c) A debt may only be written-off by the Council against the municipality's provision for doubtful debts, being a funded reserve established pursuant to the municipality's Funding and Reserves Policy.
d) The writing-off of a debt by the Council is an accounting procedure and does not constitute abandonment by the municipality of its claim against a debtor.
e) Copies of the reports to the Council in regard to all debts written-off are to be retained in the records of the municipality against the name of the debtor.
f) In terms of the Indigent Policy, the arrears on an account are written-off upon registration as an indigent account and the related report is submitted to Council.
g) Upon closure of an active account and after the security deposit is released, any outstanding balance of one hundred rand (R100.00) or less after three months that cannot be transferred to another account belonging to the accountholder should be written-off and a report submitted to Council accordingly.

7.2 Information to be placed by the Accounting Officer before the Council in a report recommending the writing off of a debt or group of debts:

a) In the case of an individual debt, particulars of the debt including the amount of the debt, stating separately the capital amount and the interest accrued.
b) In the case of a group of debts, particulars of the group including a motivation for the submission of the debts in question as a group (e.g. cause of action, collection procedures and prospect of recovery similar in each case) and the total amount of the debts in the group, stating separately the total of the capital amounts and interest accrued.
c) Steps taken to recover the debt or group of debts
d) Particulars of the debtor including:
    i. Account number;
    ii. Name of account holder;
    iii. Whether the account holder has been liquidated or sequestrated;
    iv. Whether the debtor can be traced.
e) Any other information relating to the debt which may be requested by Council.

8. Factors which the Council may take into account in writing off debt

8.1) A debt is deemed to be irrecoverable:

a. If it has prescribed in terms of the Prescribed in terms of the Prescription Act, No 68 of 1969;

b. If the debtor has been sequestrated or liquidated and the proceeds of the sequestration or the liquidation are insufficient to satisfy the debt;

c. The cost of recovery of the debt is likely to exceed the amount outstanding.

8.2) Any other debt may not be deemed to be irrecoverable unless:

a. all of the debtor's attachable movable and immovable property has either been sold in execution and the proceeds have not satisfied the debt, or the cost of recovery is higher than the value of the movable property;

b. the debtor is employed or in receipt of an income and all processes to attach that income or to obtain a court order for payment of the debt in instalments have been exhausted.

8.3) A debt may be considered irrecoverable if all reasonable attempts to trace the whereabouts of the debtor have been unsuccessful and no attachable assets have been found.

8.4) If the ITC report says the debtor is deceased, is an uncollectable individual and the business is liquidated or deregistered.

9. General provisions relating to the writing off of debt

9.1 Not less often than once during the municipality's financial year, the Accounting Officer shall submit a report to the Council on debts to be written-off.

9.2 A debt shall not be regarded as written-off until the Council has taken a resolution.

9.3 Prior to writing-off a debt and after consideration of the report and recommendation of the Accounting Officer in terms of this policy, the Council must be satisfied that:

i. the municipality has exhausted all means of debt recovery provided for in its Customer Care, Credit Control and Debt Collection Policy;

ii. recovery of the debt in question has been pursued diligently and completely;

iii. no other reasonably possible and practical means of recovery of the debt exists.

9.4 The writing off of a debt must be recorded in the records of the municipality and in its books of account in terms of Generally Recognised Accounting Practice.

9.5 The Council must in its budget make provision for doubtful debts through the medium of a funded reserve established in terms of the municipality's Funding and Reserve Policy, compliant with regulation 8, Municipal Budget and Reporting Regulations R 3214 dated 17/4/09.

9.6 Should any provision of this policy conflict with a provision of the municipality's Indigent Policy relating to a debt of a registered indigent, the latter policy takes precedence.

9.7 In writing-off a debt, the municipality does not abandon its claim and all amounts recovered in reduction of a debt subsequent to its writing-off shall be recorded in the books of the municipality as income.